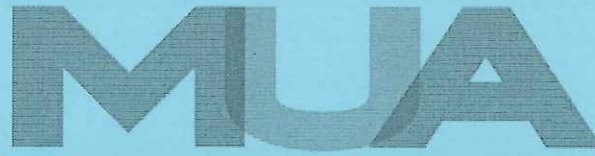


The
Management
University
of Africa



Sponsored by the Kenya Institute of Management

UNDERGRADUATE UNIVERSITY EXAMINATIONS

SCHOOL OF MANAGEMENT AND LEADERSHIP

DEGREE OF BACHELOR OF MANAGEMENT AND LEADERSHIP

BML 304 : TAXATION

DATE: 15TH DECEMBER 2017

DURATION: 2 HOURS

MAXIMUM MARKS: 70

INSTRUCTIONS:

1. Write your registration number on the answer booklet.
2. **DO NOT** write on this question paper.
3. This paper contains **SIX (6)** questions.
4. Question **ONE** is compulsory.
5. Answer any other **THREE** questions.
6. Question **ONE** carries **25 MARKS** and the rest carry **15 MARKS** each.
7. Write all your answers in the Examination answer booklet provided.

QUESTION ONE

- a) Mr. Ernest Mwendapole an employee of double Joy co. Ltd received the following income in the year 2012.

Salary	£60000 p.a
Business income	£ 30000
Farm income	£ 25000
Rental losses	£100000
Dividends-maji mengi co ltd	£9500
Interest-trust bank	£90000

The following deductions were made from his salary

Contribution to a registered pension scheme	£14000 p.a
Contribution to HOSP	£7000 p.a

The employer contributed a similar amount on his behalf to HOSP

Interest paid in respect of a loan obtained from HFCK and used to construct a residential house for his ex-girlfriend £9000 p.a

He received sh 30000 p.m from the previous employer as pension income

REQUIRED

Compute the taxable income and tax payable for the year 2012 **(10 Marks)**

- b) Explain in each of the below cases whether the individuals were residents in the year of income

- i) Mr. Kiogotho has a (permanent home) and was in Kenya for:

2012 - 2 days
2011 - 0 days
2010 - 7 days
2009 - 46 days

(3 Marks)

- ii) Mr. Magu (No permanent home)

2012- 184 days
2011- 20 days
2010 - 6 days
2009 - 7 days:

(3 Marks)

- iii) Mrs. Gatu (No permanent home)

2012 - 2 days
2011 - 140 days
2010 - 180 days
2009 - 140 days:

(3 Marks)

- c) Highlight the characteristics of a tax

(6 Marks)

QUESTION TWO

- a) Define Pseudo taxes and give examples of this taxes in kenya (8 Marks)
- b) Differentiate exempt, qualifying and non qualifying dividend incomes (7 Marks)

QUESTION THREE

Mr. Francis Omwami is renown trader in Kibwezi. For the year ended 31/12/2012, he recorded the following transactions:

	Shs'000'	shs'000'
Sales		120000
Opening stock	54000	
Purchases	66000	
Closing stock	<u>(63000)</u>	<u>(57000)</u>
Gross profit		63000
Other incomes:		
Sale of old shop	13000	
Gain -sale of lorry	2000	
Cash discount	2000	
Miscellaneous receipt	800	
Dividends:		
BAT (gross)	3000	
Taabu cooperative society	700(net)	
Bad debt recovered (general)	4500	
Interest from kairasy Co ltd	100	
Discount received	200	
Gifts from: Customers	3050	
Politicians	3150	
Share premium	<u>300</u>	<u>32800</u>
		95800
Less expenses		<u>(84000)</u>
Net profit		<u>11800</u>

Notes:

- Sales included goods withdrawn for family use whose proceeds were shs.1, 200,000 and the cost was shs.900, 000
- Opening and closing stocks were undervalued by 10% below the cost price.
- Purchases included motor car cost shs.800, 000 and wife's salary of shs.400, 000
- Included in the expenses were:
 - Legal expenses in respect of an assault case of shs.100, 000 relating to an employee and shs.120, 000 relating to sale of a plot

- b. An amount loaned to a customer shs.180, 000
- c. Depreciation shs.900, 000 but the agreed capital allowance was shs.1,100,000
- d. Contributions to national disaster fund shs.300, 000 and staff members harambee for a son schooling in India shs.70, 000
- e. School fees for own daughter studying in USA shs.450, 000. The daughter will be employed as an assistant accountant in the business
- f. Medical expenses for the wife sh.600, 000 and for staff members sh.1, 200,000
- g. Car expenses amounting to sh.2, 400,000. The car was used $\frac{3}{4}$ for business and $\frac{1}{4}$ privately
- 5. From his drawings account, he spent sh.120, 000 on repairs of the premises. The amount was reflected only in his drawings account
- 6. His general manager spent sh.200, 000 on entertaining business customers. The proprietor reimbursed this amount from his private account
- 7. He received sh.1500, 000 from Alico Insurance Co. in respect of stock destroyed by fire. This amount was only reflected in his private account
- 8. He imported goods from Britain and made a Forex gain of sh.700, 000 which is included in 2012 sales. However the goods were received on 11/1/2012 and payment made then
- 9. One of his creditors Mrs. Nyangau wrote off the debt he owed her of sh.800, 000 after fire razed his stocks. This has not been captured in the statement (CPA)

Required: Compute the taxable income for the year

(15 Marks)

QUESTION FOUR

- a) Highlight the sources of public finance (8 Marks)
- b) Define the term supply as used in VAT and highlight instances when supply is deemed to have occurred (7 Marks)

QUESTION FIVE

- a) Distinguish between forward and backward tax shifting (6 Marks)
- b) Alex Maina, a manufacturer purchased variable raw materials for sh1m excluding VAT. He then incurred conversion costs at 40% on raw material cost. His profit markup is 20%. He sold the completed product to Ann Maina wholesalers who then incurred storage cost at 20% on cost and conversion cost 50%. Her mark up was 10%. Ann sold the improved commodity to Mr Mwangi, a retailer who bears no costs but sells at a profit margin of 25%. Required: Assuming VAT rate of 16%, compute VAT payable by each trader (9 Marks)

QUESTION SIX

- a) Discuss the three theories of tax shifting (9 Marks)
- b) Define the following terms as used in Customs and Excise Duties;
- i customs warehouse (2 Marks)
 - ii bonded warehouse (2 Marks)
 - iii Duty free shop (2 Marks)

